

Briefs

Food & Marketing

Food Price Outlook for 2000: An Update

The consumer price index (CPI) for all food is expected to increase 2-3 percent in 2000, following a 2.1-percent increase in 1999. Food at home is projected to rise 2-2.5 percent, while food away from home should increase 2.5-3 percent. Last year's all-food rise was the smallest since the 1.2-percent gain in 1992.

The all-food CPI increase will be closer to the high end of the range if energy prices remain at elevated levels for 6 months or more. Another factor pushing the CPI to the high end would be greater-than-expected demand for meat products, which appears to be strengthening despite higher prices. A booming domestic economy is fueling this demand and bolstering prices.

Beef and veal. After increasing 2 percent in 1999, the CPI for beef is expected to increase 4-6 percent in 2000, the largest gain since 1993. Domestic beef supplies are likely to tighten in fourth-quarter 2000 and remain tight over the next couple of years. With supplies smaller and prices higher, consumption is expected to lower by 0.6 pounds in 2000, to 68.7 pounds per capita.

Beef production was up nearly 3 percent in 1999 to 26.5 billion pounds, breaking the 1976 record. Production is expected to remain high in first-half 2000 as cattle-on-feed inventory remains record high, then to decline sharply in the second half of the year. Exports are expected to decline 1 percent in 2000 because of slightly lower production, higher prices, and an expected halt in beef donations to Russia. Beef imports for 1999 surpassed earlier expectations, up almost 9 percent, and are expected to reach a record 3 billion pounds in 2000, up 5 percent from 1999.

Pork. Reduced pork output is expected to boost retail pork prices 4-6 percent in 2000, after declining 1.8 percent in 1999 and 4.7 percent in 1998. Following 2 consecutive record years, production is expected to fall 3 percent to 18.7 billion pounds in 2000. Responding to low returns in 1998, hog producers began to reduce breeding herds late in the year,

continuing through 1999. Pork consumption in 2000 will likely decline 2.5 pounds from 1999 levels to 51.7 pounds per person in 2000. Supporting the gains in pork prices will be sharply declining beef production in second-half 2000 and moderating broiler production in 2000.

Poultry. The CPI for poultry is expected to increase 0-2 percent in 2000, following a 0.5-percent gain in 1999. Projected declines in beef and pork production and a slower rate of growth in broiler production should prevent broiler prices from dropping. Broiler meat production is expected to increase to 30.8 billion pounds in 2000 from 29.5 billion pounds in 1999. Turkey production, which was 5.2 billion pounds in 1999, is forecast to increase slightly, reaching 5.3 billion pounds in 2000.

Broiler exports are expected to expand in 2000, with greater shipments going to a number of Asian markets and to a slowly

recovering Russian market. U.S. broiler exports in 2000 are expected up 2 percent to 4.8 billion pounds in 2000, about the same growth rate as in 1998. Demand in developing countries is expected to expand due to rising populations and a growing preference for a western-type diet.

Eggs. Retail egg prices are forecast unchanged in 2000 following a 5.4-percent drop in 1999. Egg production increased nearly 4 percent in 1999, lowering wholesale and retail egg prices. With feed costs in check, returns to egg production were positive in 1999, and table-egg production is expected to increase about 2 percent in 2000. Higher production levels and slower growth in exports led to lower retail prices in the last 3 years. Per capita consumption is expected to reach 258.6 eggs in 2000, up 1 percent from 1999.

Dairy products. For most of 1999, milk production could not keep pace with demand, and the CPI for dairy products increased 5.8 percent. Retail prices are expected to decline 1-2 percent in 2000 as milk production expands due to higher producer prices last year, lower feed prices, and ample alfalfa supplies.

Changes in Food Price Indicators, 1998 through 2000

	Relative weights*	1998	1999	Forecast 2000
		Percent change		
	Percent	Percent change		
All items		1.6	2.2	2.6
All food	100.0	2.2	2.1	2 to 3
Food away from home	37.2	2.6	2.5	2.5 to 3
Food at home	62.8	1.9	1.9	2 to 2.5
Meats	10.8	-1.9	0.5	4 to 6
Beef and veal	4.8	-0.2	2.0	4 to 6
Pork	3.8	-4.7	-1.8	4 to 6
Other meats	2.2	-0.9	1.0	3 to 5
Poultry	3.2	0.3	0.5	0 to 2
Fish and seafood	2.2	2.6	2.0	2 to 3
Eggs	0.8	-3.3	-5.4	-1 to 1
Dairy products	6.7	3.6	5.8	-2 to -1
Fats and oils	1.9	3.7	1.0	1.5 to 2.5
Fruits and vegetables	9.0	5.7	2.5	2 to 3
Fresh fruits and vegetables	6.9	7.3	2.8	2 to 3
Fresh fruits	3.5	4.3	8.0	2 to 3
Fresh vegetables	3.4	10.9	-3.0	2 to 3
Processed fruits and vegetables	2.1	1.7	2.1	2 to 3
Sugar and sweets	2.4	1.6	1.4	1.5 to 2.5
Cereal and bakery products	10.0	2.0	2.2	2 to 3
Nonalcoholic beverages	7.0	-0.3	1.0	2 to 3
Other foods	8.5	2.7	2.1	2 to 3

*Bureau of Labor Statistics estimated weights as share of all food, December 1998.

Sources: Historical data, Bureau of Labor Statistics; forecasts, Economic Research Service.

Economic Research Service, USDA

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A robust economy is projected to keep dairy demand brisk in 2000. Strong consumer demand for dairy items, especially cheese, butterfat products, and gourmet ice cream, is expected to continue this year. Consumer readiness to buy these items is due partly to rising disposable personal income. Increased spending for away-from-home meals, and the willingness to pay for convenience and other forms of commercial food preparation, are also important factors.

Fats and oils. Prices increased 1 percent in 1999 and are expected up 1.5-2.5 percent in 2000. The small increase was due largely to lower retail prices for butter, which accounts for 31 percent of the fats and oils index (butter was transferred in December 1997 from the dairy products category). Remaining items in the fats and oils index are highly processed food items (e.g., peanut butter, salad dressing), and price changes are influenced by the general inflation rate as well as U.S. and world supplies of vegetable oils.

Fresh fruits. The fresh fruit index rose 8 percent in 1999, due mainly to higher retail prices for fresh oranges (navel oranges up 49 percent and Valencia oranges up 44 percent), which account for 20 percent of the fresh fruits index. Retail prices for many other fruits also averaged above the previous year, including grapefruit (up 8 percent), grapes (up 16 percent), lemons (up 11 percent), peaches (up 5 percent), pears (up 2 percent), and strawberries (up 3 percent). Retail apple prices were lower in first-half 1999, reflecting sales of the record 1998 crop. Apple production fell 7 percent in 1999, and prices since last fall have remained above year-earlier levels. The fresh fruit CPI is forecast to increase 2 to 3 percent in 2000, with continued strong U.S. consumer demand offsetting a return to normal production levels (following a reduced 1998/99 citrus crop).

Fresh vegetables. Fresh-market vegetable acreage for harvest increased 1 percent in 1999, with summer vegetable area up 5 percent over a year earlier. Growing conditions in major fresh vegetable areas were normal in 1999, and the CPI for fresh vegetables fell 3 percent. With reduced grower and retail prices, growers may have the incentive to cut acreage in 2000. However,

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U.S. Wholesale Food Prices Drop

[This year's] situation was highlighted by the sharpest drop in wholesale food prices in 17 years, the smallest year-to-year advance in retail food-at-home prices in almost a decade, and a big 3-percent increase in per capita food consumption. This contrasts to the consumption and price movements of the previous 3 years and reflects generally large crop harvests and heavy output of livestock and poultry products.

The CPI for all food during the entire year averaged about 3 percent above [the previous year], in contrast to an increase of over 6½ percent for nonfood items. Retail prices for food at home were up about 2 percent while food-away-from home prices rose almost 7 percent.

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winter-season vegetable acreage in primary desert production areas in southwestern U.S. is up for several major vegetables, including tomatoes and lettuce. Assuming normal weather and growing conditions in the major fresh vegetable growing areas in 2000, the fresh vegetable index is forecast to increase 2-3 percent.

Processed fruits and vegetables.

Adequate supplies of most fruits and vegetables for processing limited the rise in the CPI for processed fruits and vegetables to 2.1 percent in 1999. The index is expected up 2-3 percent in 2000.

Sugar and sweets. The sugar and sweets index rose only 1.4 percent in 1999, reflecting relatively low inflation and increased production. The CPI is projected to increase 1.5-2.5 percent in 2000, despite a forecast record 9 million short tons of sugar production in 1999/2000, as demand remains strong. U.S. sugar consumption has expanded at a rate of about 1.9 percent per year since 1985/86.

Cereal and bakery products. These items account for a large portion of the at-home food CPI—almost 16 percent. The CPI for cereals and bakery products increased 2.2 percent in 1999, reflecting modest gains in processing costs and lower grain prices in 1999. In most cases, processing and marketing account for more than 90 percent of cereal and bread production costs, with farm ingredients a minor component of total cost. With consumer demand for bakery products expected to

remain fairly strong, the CPI is forecast up 2-3 percent in 2000.

Nonalcoholic beverages. The CPI for nonalcoholic beverages, up 1 percent in 1999, is forecast to increase 2-3 percent in 2000. Carbonated beverages and coffee are the two major components, accounting for 38 percent and 28 percent of the non-alcoholic beverages index. Retail prices for soft drinks recovered slightly in 1999 following declines in 1997 and 1998. Partially offsetting these gains were lower coffee prices, reflecting a near-record crop in Brazil, the largest producer of arabica coffee beans. Excellent weather for the current crop should lead to an ample supply and larger U.S. stocks with continued lower consumer prices. The U.S. imports up to 80 percent arabica beans along with 15-20 percent robustas, which go mainly to soluble (instant) coffee or are blended with arabicas.

Other foods. Miscellaneous prepared foods are highly processed and are largely affected by changes in the all-items CPI. These products include frozen dinners, pizzas, and precooked frozen meats. Competition among these products and from the away-from-home market should continue to dampen retail price increases for items in this category. In 1999, the CPI for this category increased 2.1 percent and is expected to rise 2-3 percent in 2000.

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